

Climate Investment Principles

An overview

Draft – to be further developed

UN-CONVENED NET-ZERO ASSET OWNER ALLIANCE

January 2021



CONTENT

1. Executive Summary – Rationale (which asset classes covered) *(until end of April)*
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6. ICMA – International Capital Market Association
 - Green Bond Principles
 - Climate Transition Finance Handbook
 - Handbook – Harmonized Framework for Impact Reporting
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INTERNATIONAL CAPITAL MARKET ASSOCIATION

Green Bond Principles
Climate Transition Finance Handbook
Harmonized Framework for Impact Reporting

GREEN BOND PRINCIPLES

Voluntary Process Guidelines for Issuing Green Bonds

- The Green Bond Principles (GBP) are **voluntary process guidelines that recommend transparency and disclosure.**
- The GBP provide issuers with **guidance on the key components** involved in launching a credible Green Bond;
- They aid investors by promoting availability of information necessary to evaluate the environmental impact of their Green Bond investments.
- And they assist underwriters by moving the market towards expected disclosures that will facilitate transactions.
- The cornerstone of a Green Bond is the utilisation of the **proceeds of the bond for Green Projects**, which should be appropriately described in the **legal documentation for the security.**
- All designated Green Projects should provide clear environmental benefits, which will be assessed and, where feasible, quantified by the issuer.

GREEN BOND PRINCIPLES

Use of Proceeds	Process for project evaluation and selection	Management of proceeds	Reporting
<ul style="list-style-type: none"> Green Projects should provide clear environmental benefits, which will be assessed and, where feasible, quantified by the issuer. Categories which contribute to environmental objectives such as: climate change mitigation, climate change adaptation, natural resource conservation, biodiversity conservation, and pollution prevention and control. 	<ul style="list-style-type: none"> Clear communication of Green Bond issuer to investors about sustainability objectives, how the projects fit within the eligible Green Projects categories, the related eligibility criteria Issuers are encouraged to disclose this information within the context of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability and any green standards or certifications referenced in project selection. 	<ul style="list-style-type: none"> Net proceeds should be tracked by the issuer in an appropriate manner and attested to by the issuer in a formal internal process linked to the issuer's lending and investment operations for Green Projects Balance of tracked net proceeds should be periodically adjusted High level of transparency, third party should verify the internal tracking method and the allocation of the funds 	<ul style="list-style-type: none"> Make up to date information on the use of proceeds annually available (list and description of projects, qualitative and quantitative performance indicators/measures, key underlying methodologies and assumptions) The annual report should include a list of the projects to which Green Bond proceeds have been allocated, a brief description of the projects and the amounts allocated, and their expected impact.

GREEN BOND PRINCIPLES

Green Project Mapping

- High-level mapping to GBP Environmental Objectives and other Green Classifications
- Green Project categories and environmental objectives - table I
- Green Project categories and various classification systems – table II

GREEN BOND PRINCIPLES – TABLE I

GBP-project categories	Environmental objectives				
	Climate change mitigation	Climate change adaptation	Biodiversity	Natural resource conservation	Pollution prevention and control
Renewable energy	● ● ●			●	●
Energy efficiency	● ● ●				●
Pollution prevention and control				●	● ● ●
Environmentally sustainable management of living natural resources and land use	●	● ●	● ● ●	● ● ●	
Terrestrial and aquatic biodiversity conservation		●	● ● ●	● ● ●	
Clean transportation	● ● ●			●	● ● ●
Sustainable water and wastewater management		● ●	● ●	● ●	● ● ●
Climate change adaptation		● ● ●			
Eco-efficient and/or circular economy adapted products, production technologies and processes	● ●		●	● ● ●	●
Green buildings	● ● ●	●		● ● ●	●

Mapping of the GBP-project categories to environmental objectives

Contribution to objective:

primary ● ● ● secondary ● ● tertiary ●

qualifies for Alliance Climate Solution Reporting

GREEN BOND PRINCIPLES – TABLE II

GBP-project categories	China Green Bond Catalogue		CBI	MDB-IDFC (climate change mitigation only)	EU Taxonomy
Renewable energy	Clean energy		Energy	Renewable energy	TED
Energy efficiency	Energy saving			Energy efficient transmission and distribution systems	
Pollution prevention and control	Pollution prevention and control		Waste and pollution control	Waste	
Environmentally sustainable management of living natural resources and land use	Ecological protection and climate change adaptation		Nature based assets	Agriculture, forestry and land use	
Terrestrial and aquatic biodiversity conservation				Afforestation and reforestation, and biosphere conservation	
Clean transportation	Clean transportation		Transport	Transport	
Sustainable water and wastewater management	Resource conservation and recycling		Water	Wastewater	
Climate change adaptation	Ecological protection and climate change adaptation		No relevant category	No relevant category	
Eco-efficient and/or circular economy adapted products, production technologies and processes	Energy saving	Resource conservation and recycling	Industry and energy intensive commercial	Low carbon technologies, energy efficiency in industry	
Green buildings			Low carbon buildings	Energy efficiency in buildings	

High level equivalence across classification standards

The China Green Bond Catalogue:
<https://policy.asiapacificenergy.org/sites/default/files/Preparation-Instructions-on-Green-Bond-Endorsed-Project-Catalogue-2015-Edition-by-EY.pdf>
 CBI:
<https://www.climatebonds.net/files/files/CBI-Taxonomy-Sep18.pdf>
 MDB-IDFC:
https://www.eib.org/attachments/documents/mdb_idfc_mitigation_common_principles_en.pdf
 EU Taxonomy:
https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en

CLIMATE TRANSITION FINANCE HANDBOOK

Introduction

- The document seeks to provide clear guidance and common expectations to capital markets participants on the **practices, actions and disclosures** to be made available when **raising funds in debt markets for climate transition-related purposes**.
- Given that transition pathways must be tailored to the sector and operating geographies of an issuer and noting that issuers are generally at different starting points and on different pathways, this document does **not seek to provide definitions or taxonomies of transition projects**, noting that there are several efforts in this area underway globally.
- Rather, it clarifies the **issuer-level disclosures** which are recommended to credibly position the issuance of Use of Proceeds or Sustainability-Linked instruments to finance the transition, particularly of 'hard-to-abate' sectors.
- There are **four key elements to these recommendations**:
 1. Issuer's climate transition strategy and governance;
 2. Business model environmental materiality;
 3. Climate transition strategy to be 'science-based' including targets and pathways; and,
 4. Implementation transparency.

CLIMATE TRANSITION FINANCE HANDBOOK

Issuer's climate transition strategy and governance	Business model environmental materiality	Climate transition strategy to be 'science-based' including targets and pathways	Implementation transparency
<ul style="list-style-type: none"> Issuer's strategy should be guided by the objective of limiting global temperature increases ideally to 1.5°C and, at the very least, to well below 2°C. <p>Disclosure</p> <ul style="list-style-type: none"> Long-term target Relevant interim targets Issuer's levers towards decarbonisation Clear oversight and governance of transition strategy <p>Independent review, assurance and verification</p> <ul style="list-style-type: none"> Alignment of long-term and short-term targets Credibility of the issuers strategy to reach the targets 	<ul style="list-style-type: none"> The planned climate transition trajectory should be relevant to the environmentally-material parts of the issuer's business model, taking into account potential future scenarios which may impact on current determinations concerning materiality. <p>Disclosure</p> <ul style="list-style-type: none"> Discussion of the materiality of the planned transition trajectory may be included <p>Independent review, assurance and verification</p> <ul style="list-style-type: none"> Not appropriate in all cases but accounting profession may provide guidance 	<p>Planned transition trajectory should:</p> <ul style="list-style-type: none"> be quantitatively measurable be aligned with, benchmarked or otherwise referenced to science-based trajectories be publicly disclosed include interim milestones be supported by independent assurance or verification. <p>Disclosure</p> <ul style="list-style-type: none"> Short, medium, and long-term GHG reduction targets aligned with Paris Baseline; Scenario utilised, and methodology applied GHG objectives covering all scopes Targets formulated in intensity and absolute terms. 	<ul style="list-style-type: none"> It is recommended to provide transparency with regard to the planned capital and operational expenditure decisions Issuers should report in qualitative and quantitative fashion the climate-related outcomes if considered social expenditures <p>Disclosure</p> <ul style="list-style-type: none"> percentage of assets/revenues/ expenditures/divestments aligned to the various levers outlined in Element 1 Capex roll-out plan consistent with the overall strategy and climate science

HARMONIZED FRAMEWORK FOR IMPACT REPORTING

Introduction

- The GBP recommend the use of both **qualitative performance indicators** and, where **feasible, quantitative performance measures** with the disclosure of the key underlying methodology and/or assumptions used in the quantitative determination. The handbook outlines **general core principles and recommendations for reporting** in order to provide issuers with a reference as they develop their own reporting. The handbook also offers impact **reporting metrics and sector specific guidance** for the aforementioned project categories.
- The compilation of the handbook was led by an informal Technical Working Group comprising EBRD, EIB, International Finance Corporation (IFC), KfW, NIB and the World Bank.

HARMONIZED FRAMEWORK FOR IMPACT REPORTING

Core Principles and Recommendations

1. Green bond issuers are encouraged **to report on both the use of green bond proceeds**, as well as the **expected environmental impacts** at least on **an annual basis**.
2. Issuers are recommended **to define and disclose the period and process for including projects** in their report.
3. The report should indicate the **total signed amount, the amount of green bond proceeds allocated to eligible disbursements and additional information** such as year of signing or project stage from a financing point of view.
4. Issuers are encouraged **to put in place a formal internal process for the allocation of proceeds** linked to their lending and investment operations for Green Projects and to report on the allocation of proceeds.
5. It is recommended that issuers either provide **a list of projects to which green bond proceeds have been allocated or report solely on a portfolio level** and explain **the key characteristics** of the approach they select for their report.
6. Depending on the way in which proceeds are allocated, there can be differences in the approach to impact reporting.
 - If allocations are to **individual projects**:
 - the specific projects, the total project results with information about the total project size and/or the issuer's share of total financing
 - Aggregates project-by-project results including only the pro-rated share of the total projects' results
 - If allocations are to a **portfolio of projects**: overall results of the portfolio (portfolio report based on portfolio allocation)
7. The impact report should illustrate the **expected environmental impact made possible as a result of projects** to which green bond proceeds have been allocated
8. Report the **estimated lifetime results** and/or project economic life (in years) to provide users with a basis for understanding the impact of the project over its lifetime.

HARMONIZED FRAMEWORK FOR IMPACT REPORTING

Core Principles and Recommendations

9. In case the issuer **samples ex-post verification** of specific projects: **relevant results** should be included in the reporting.
10. To facilitate comparison of project results, issuers should aim **to report on at least a limited number of sector specific core indicators** for projects included in their green bond programs.
11. For the calculation of indicators, where there is no single commonly-used standard, issuers **may follow their own methodologies while making these available to investors**. Issuers should **provide full transparency** on the applicable GHG accounting methodology and assumptions, which can be referenced.
12. Investors should be aware **that comparing projects, sectors, or whole portfolios is difficult** because general assumptions on inputs in calculations, like grid factors and calculation methods, as well as cost structures between countries also vary significantly
13. Issuers may elect, for consistency reasons, **to convert units reported for individual projects**. This should be based on a standard conversion factor to facilitate comparison and aggregation. However, complex recalculations that are not publicly disclosed in project documentation should be avoided.
14. Issuers are encouraged **to be transparent about projects with partial eligibility**
15. In case the expected impacts of different project components (such as for example energy efficiency (“EE”) and renewable energy (“RE”) components of the same project) may not be reported separately, issuers **may attribute the results to each component based on their relative share in the related financing, disclosing the attribution approach**. Alternatively, issuers could combine the reporting metrics for both sectors into a single table (option 2 in the reference reporting templates).
16. Issuers should be **transparent on how they report all green bond-related cash-flows in one currency** when they allocate green bond proceeds and report on the projects to which green bond proceeds have been allocated.

HARMONIZED FRAMEWORK FOR IMPACT REPORTING

Sector Specific Guidance and Reporting Metrics (one selected Core Indicators for each section)

Renewable Energy

Annual GHG emissions reduced/avoided in t of CO₂ equivalent

Energy Efficiency

Annual energy savings in MWh/GWh (electricity) and GJ/TJ (other energy savings)

Sustainable Water and Wastewater Management

Annual water savings: annual absolute water use before and after the project in m³/a, reduction in %

Clean Transportation

Reduction of air pollutants: particulate matter (PM), sulphur oxides (SO_x), nitrogen oxides (NO_x), carbon monoxide (CO), and non-methane volatile organic compounds (NMVOCs)

Waste Management and Resource Efficiency

Waste that is prevented, minimised, reused or recycled before and after the project in % of total waste and/ or in tonnes p.a.

Biodiversity

Protected areas and other effective area-based conservation measures (OECM): Maintenance/ safeguarding/increase of protected area/OECM/habitat/ natural landscape area in km² and in % for increase

Green Buildings

Energy performance: kWh/m² of GBA p.a.; and % of energy use reduced/avoided vs local baseline/building code
Carbon Performance: kgCO₂/m² of GBA p.a.;

Climate Change Adaptation

Reduction in the number of power lines incapacitated due to storms
Reduction in the number of wildfires, and/or in the area damaged by wildfires in km²

HARMONIZED FRAMEWORK FOR IMPACT REPORTING

Reporting Template (Energy Efficiency as example)

Illustrative Summary Template for Project-by-Project Report:

Energy Efficiency (EE)	Signed Amount <u>a/</u>	Share of Total Project Financing <u>b/</u>	Eligibility for green bonds	EE component	Allocated Amount <u>c/</u>	Project lifetime <u>d/</u>	#1) Annual energy savings (electricity / other)		#2) Annual GHG emissions reduced/avoided <u>e/</u>	Other Indicators
Project name <u>f/</u>	currency	%	% of signed amount	% of signed amount	currency	in years	MWh/GWh	GJ/TJ	in tonnes of CO ₂ equivalent	
e.g. Project 1	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX people benefited; XXX t CO ₂ eq. Absolute annual project emissions.

Illustrative Summary Template for Portfolio-based Report:

Energy Efficiency (EE)	Signed Amount <u>a/</u>	Share of Total Portfolio Financing <u>b/</u>	Eligibility for green bonds	EE component	Allocated Amount <u>c/</u>	Average portfolio lifetime <u>d/</u>	#1) Annual energy savings (electricity / other), possibly per unit of financing		#2) Annual GHG emissions reduced/avoided (possibly per unit of financing) <u>e/</u>	Other Indicators per unit (possibly per unit of financing)
Portfolio name	currency	%	%	%	currency	years	MWh/GWh	GJ/TJ	in tonnes of CO ₂ equivalent	
e.g. Portfolio 1	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX people benefited; XX t CO ₂ eq. Absolute annual project emissions.

CLIMATE BOND INITIATIVE (CBI)

Standard & Certification Scheme Version 3.0

Taxonomy

Sector Criteria

CLIMATE BOND STANDARD & CERTIFICATION SCHEME 3.0



Key Components Climate Bond Standard & Certification Scheme 3.0

- The Certification Scheme allows investors, governments and other stakeholders to **identify and prioritise 'low-carbon and climate resilient' investments** and avoid 'greenwash'.
- aims to **provide the green bond market with the trust** and assurance that it needs to achieve scale
- builds on **the broad integrity principles contained in the Green Bond Principles**
- For investors: screening tool that **labels bonds or loans** as Certified Climate Bonds, Loans or Debt Instruments
- For issuers: a **voluntary initiative to demonstrate to the market that their bond or loan meets science-based standards for climate integrity**, and best practice standards for management of proceeds and transparency.

Key features:

- **Full alignment with the Green Bond Principles, Green Loan Principles**, the proposed EU Green Bond Standard, ASEAN Green Bond Standards, Japan's Green Bond Guidelines and India's Disclosure & Listing Requirements for Green Bonds
- **Clear mandatory requirements** for use of proceeds, selection of projects & assets, management of proceeds and reporting
- **Sector criteria** for determining the low-carbon and climate resilient credentials of projects and assets
- An assurance framework with **independent verifiers and consistent procedures**
- Certification awarded by the Climate Bonds Standard Board and is confirmed after issuance of the bond or loan with **mandatory independent verification and annual reporting for the term of the investment**
- The financing assets are **consistent with achieving the goals of the Paris Agreement**

CLIMATE BOND STANDARD & CERTIFICATION SCHEME 3.0



Key Components Climate Bond Standard & Certification Scheme 3.0

Key Components:

- **Climate Bonds Taxonomy,**
- **Sector Eligibility Criteria,**
- **guidance material** and certification documents

How the certification works:

- The requirements of the Climate Bonds Standard are separated into the two distinct phases of issuing a bond, loan or other debt instrument:
 - 1. **Pre-Issuance Requirements** which need to be met for issuers seeking certification ahead of issuance,
 - 2. **Post-Issuance Requirements** which need to be met by issuers seeking ongoing certification following the issuance.
- Verification by an **Approved Verifier is mandatory** in the Certification process. Ongoing Certification includes requirements for **annual reporting with public disclosure.**

Ongoing reporting:

- All issuers are required to **report annually** to maintain the Certification and the reporting is divided into
 - 1) **Allocation reporting** (confirming the allocation of bond proceeds to eligible projects),
 - 2) **Eligibility reporting** (confirming the characteristics or performance of projects and assets to demonstrate their eligibility),
 - 3) **Impact reporting** (closure of metrics or indicators which reflect the expected or actual impact)

CLIMATE BOND INITIATIVE TAXONOMY








































Introduction




- The Climate Bonds Taxonomy is the **high-level roadmap for the relevant sectors**.
- It forms the basis of the Climate Bonds green bond database methodology, used by Climate Bonds to **assess the climate alignment of all green bonds** (certified or uncertified) for inclusion in the database, which is then used by index providers, analysts and other market players.
- It **identifies the assets and projects needed to deliver a low carbon economy** and gives **GHG emissions screening criteria consistent with the 2° global warming target** set by the COP 21 Paris Agreement. It has been developed based on the latest climate science including research from the IPCC and the IEA and has benefited from the input of hundreds of technical experts from around the world.
- The following sectors are covered by the CBI Taxonomy:

ENERGY	WATER	LAND USE & MARINE RESOURCES	WASTE & POLLUTION
TRANSPORT	BUILDINGS	INDUSTRY	ICT

Source: https://www.climatebonds.net/files/files/CBI_Taxonomy_Tables_January_20.pdf

CLIMATE BOND INITIATIVE TAXONOMY

ENERGY	TRANSPORT	WATER	BUILDINGS	LAND USE & MARINE RESOURCES	INDUSTRY	WASTE	ICT
Solar 	Private transport 	Water monitoring 	Residential 	Agriculture 	Cement production 	Preparation 	Broadband networks
Wind 	Public passenger transport 	Water storage 	Commercial 	Commercial Forestry 	Steel, iron & aluminium production 	Reuse 	Telecommuting software and service
Geothermal 	Freight rail 	Water treatment 	Products & systems for efficiency	Ecosystem conservation & restoration 	Glass production 	Recycling 	Data hubs
Bioenergy 	Aviation 	Water distribution 	Urban development	Fisheries & aquaculture	Chemical production 	Biological treatment 	Power management
Hydropower 	Water-borne 	Flood defence 		Supply chain management	Fuel production 	Waste to energy 	
Marine Renewables 		Nature-based solutions 				Landfill 	
Transmission & distribution 						Radioactive waste management 	
Storage 							
Nuclear 							

 Certification Criteria approved
 Criteria under development
 Due to commence

10/2020

Overview of the Taxonomy over the parts of each sector which already provides approved Certification Criteria

Source: https://www.climatebonds.net/files/files/CBI_Taxonomy_Tables_January_20.pdf

CLIMATE BOND INITIATIVE SECTOR CRITERIA




Key Components Sector Criteria

- The Sector Eligibility Criteria are **science-based and provide detailed definitions for the eligibility of specific projects and assets.**
- The Criteria ensure that projects & assets are **consistent with achieving the goals of the Paris Climate Agreement** and the rapid transition to a low-carbon & climate resilient future.
- **sets climate change benchmarks for each sector** that are used to screen assets and capital projects so that only those that have climate integrity, either through their contribution to climate mitigation, and/or to adaptation and resilience to climate change, will be certified. Where a bond encompasses a mixed portfolio of assets across several sectors, **each sub-category of assets will be subject to the relevant Sector Criteria** for those assets.
- Criteria Development Process: Criteria are developed in accordance with guidance for standard setting organisations published by ISEAL.

CLIMATE BOND INITIATIVE SECTOR CRITERIA

Taxonomy table of asset and projects for the sector Transport

SECTOR	ASSET CLASSIFICATION	DESCRIPTION	CRITERIA	EMissions	STATUS
GEOTHERMAL 	Generation facilities (power & heat)	Electricity generation facilities	●	Direct emissions less than 100gCO2/kWh	●
		Direct heat application such as Geothermal Heat Pump (GHP)	●		
	Supply chain facilities	Manufacturing facilities wholly dedicated to geothermal energy developments such as geothermal turbines	●		●
		Dedicated storage, distribution, installation, wholesale and retail	●		
	Infrastructure	Dedicated transmission infrastructure	●		●
		Dedicated supporting infrastructure	●		●

Source: https://www.climatebonds.net/files/files/CBI_Taxonomy_Tables_January_20.pdf

CLIMATE BOND INITIATIVE TRANSITION PRINCIPLES

Five principles for ambition transition

The paper, which is the result of a collaborative effort between Credit Suisse and Climate Bonds, has established five principles for an ambition transition. All goals and pathways need to:

1. Align with zero carbon by 2050 and nearly halving emissions by 2030;
2. Be led by scientific experts and not be entity- or country-specific;
3. Be sure that credible transition goals and pathways don't count offsets;
4. Include an assessment of current and expected technologies which can be used to determine a decarbonization pathway;
5. Be backed by operating metrics rather than a commitment or pledge.

Work in progress

5 principles for an ambitious transition 

- 1. In line with 1.5 degree trajectory** All goals and pathways need to align with zero carbon by 2050 and nearly halving emissions by 2030.
- 2. Established by science** All goals and pathways must be led by scientific experts and be harmonised across countries.
- 3. Offsets don't count** Credible transition goals and pathways don't count offsets, but should count upstream scope 3 emissions.
- 4. Technological viability trumps economic competitiveness** Pathways must include an assessment of current and expected technologies. Where a viable technology exists, even if relatively expensive, it should be used to determine the decarbonisation pathway for that economic activity.
- 5. Action not pledges** A credible transition is backed by operating metrics rather than a commitment/pledge to follow a transition pathway at some point in the future. In other words, this is NOT a transition to a transition.

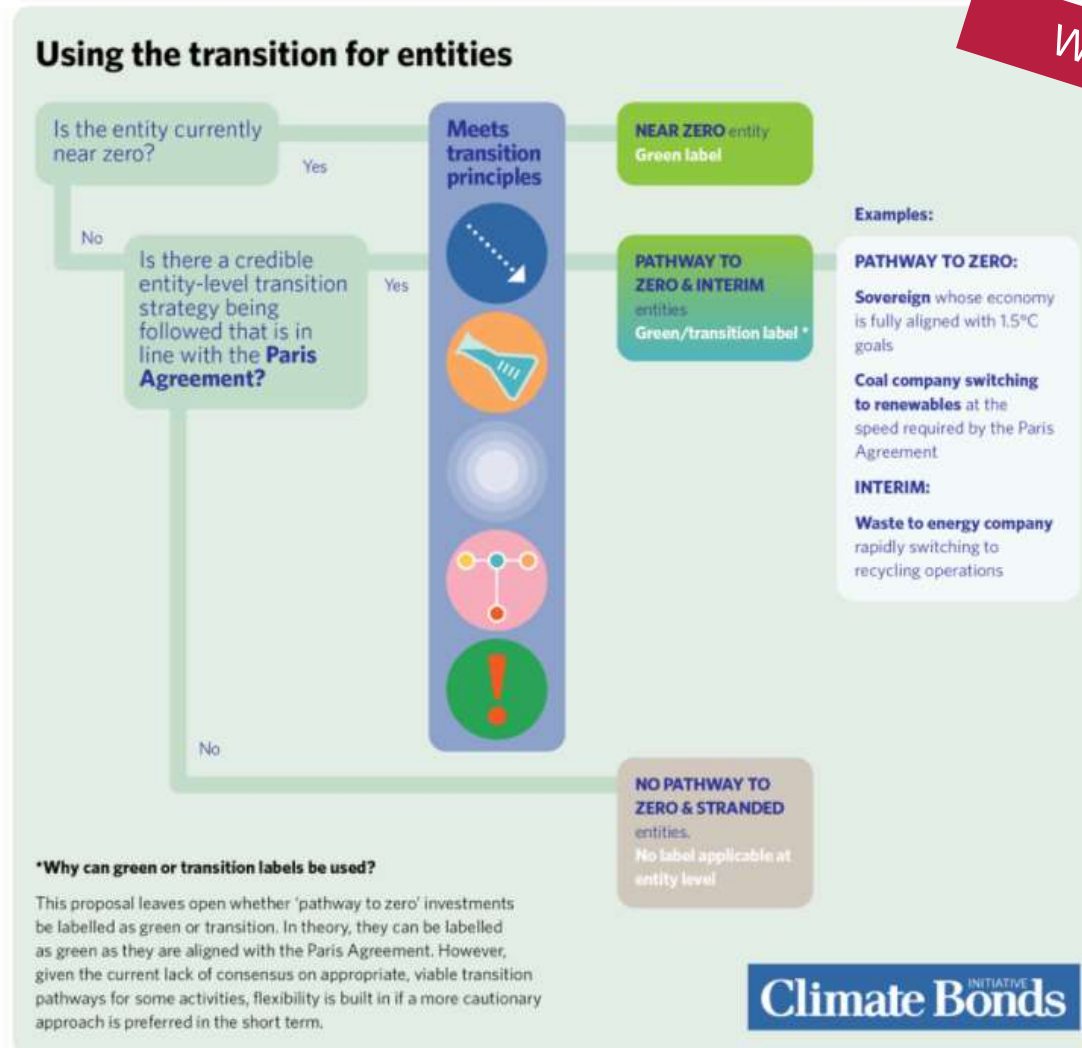
© Climate Bonds Initiative 2020 **Financing credible transitions**

Source: <https://www.climatebonds.net/principles-transition>

CLIMATE BOND

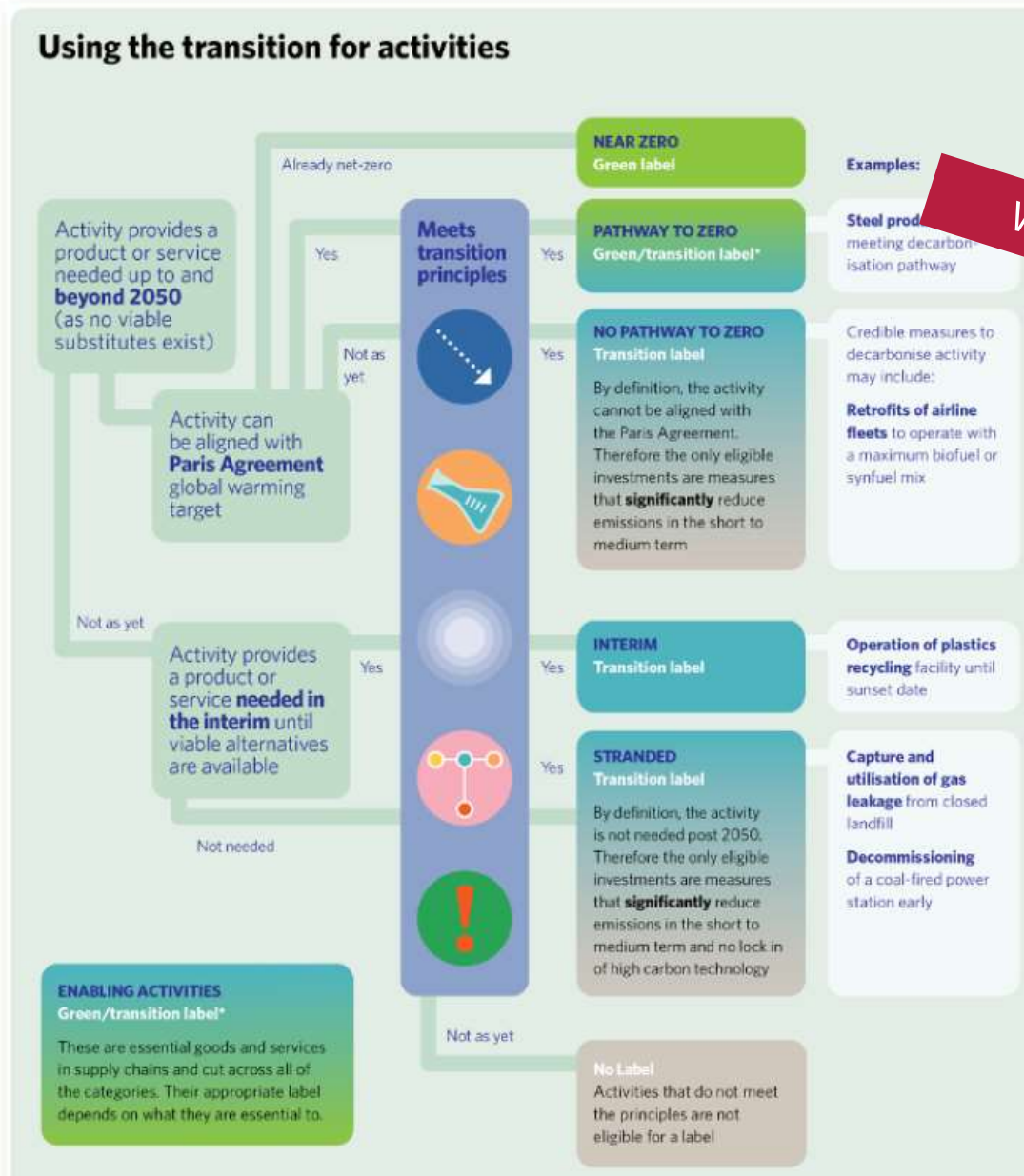
This is a flexible framework, applicable to whole entities IF they are following a credible transition pathway. How do they know they are following a transition pathway? They can see this flow chart (and if the transition isn't applicable for this as an entity, they can use the activity flow chart - see below.)

Source: <https://www.climatebonds.net/2020/09/cl>



CLIMATE BOND

Source: <https://www.climatebonds.net/2020/09/cli>



Work in progress

GREEN LOAN PRINCIPLES

GREEN LOAN PRINCIPLES

Introduction

- **Voluntary recommended guidelines**, built on and refer to the Green Bond Principles
- aim is to create a **high-level framework of market standards and guidelines**, providing a consistent methodology for use across the green loan market, whilst allowing the loan product to retain its flexibility, and preserving the integrity of the green loan market while it develops

Green Loan Definition:

- any type of loan instrument made available **exclusively to finance or re-finance, in whole or in part, new and/or existing eligible Green Projects**
- Green loans must align with the four **core components of the GLP** (see next slide)
 - **1) Use of proceeds**
 - **2) Process of Project Evaluation and Selection**
 - **3) Management of Proceeds**
 - **4) Reporting**

GREEN LOAN PRINCIPLES

Use of Proceeds	Process for Project Evaluation and Selection	Management of Proceeds	Reporting
<ul style="list-style-type: none"> • Fundamental determinant of green loan is the utilization of the loan proceeds for Green Projects • Green Projects should provide clear environmental benefits, which will be assessed and, where feasible, quantified, measured and reported by the borrower. • Categories which address key environmental concern such as climate change, natural resource depletion, loss of biodiversity, air/water/soil pollution 	<ul style="list-style-type: none"> • The borrower should clearly communicate to its lenders: • sustainability objectives, the process by which the borrower determines how its projects fit within the eligible categories and the related eligibility criteria • Borrowers are encouraged to position this information within the context of their overarching objectives, strategy, policy and/or and disclose any green standards or certifications to which they are seeking to conform. 	<ul style="list-style-type: none"> • Net proceeds should be tracked by the borrower in an appropriate manner • when green loan takes the form of one or more tranches, each tranche(s) must be clearly designated, with its proceeds credited to a separate account or tracked by the borrower in an appropriate manner. • High level of transparency, internal governance process to track allocation of funds 	<ul style="list-style-type: none"> • Make up to date information on the use of proceeds annually available (list and description of projects, qualitative and quantitative performance indicators/measures, key underlying methodologies and assumptions) • Transparency on expected impact particularly important • External review is recommended through i.e. Consultancy, Verification, Certification or Rating

THE EU TAXONOMY FOCUS REAL ESTATE

EU TAXONOMY AND REAL ESTATE

The Delegated Acts proposed new criteria for Construction and Real Estate

Previously, the requirement was that the calculated performance of the building must be within the top 15% of the local existing stock in terms of operational primary energy demand.

Acquisition and ownership of buildings - the draft for climate change mitigation now states that, for buildings built before December 31, 2020, the building **would require Energy Performance Certificate (EPC) class A.**

Construction of new buildings – 20 % lower than the primary energy demand from the relevant NZEB requirements

Potential opportunities with updated criteria on acquisition and ownership of buildings:

- **removes any sort of 'relative guarantee'** that 15% of any region's or member state's building stock would be considered as Taxonomy-aligned, and that the new criterion is much stricter.
- This could push RE companies to accelerate renovations to get their buildings into the class A.

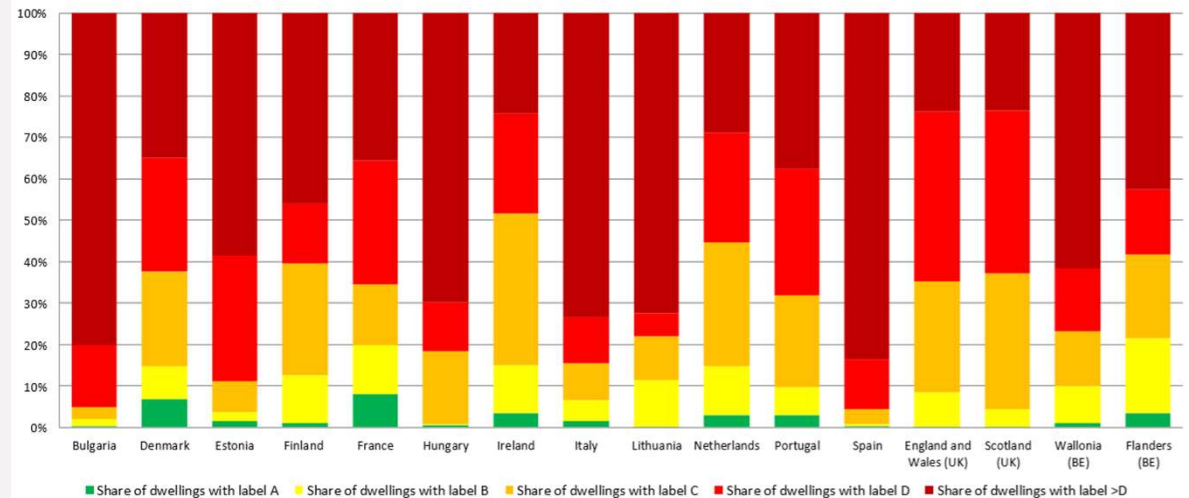
Potential challenges with updated criteria on acquisition and ownership of buildings:

- **EPC classification methods differ from country to country**, i.e. currently no absolute threshold of energy consumed per m²
- moreover, what energy performance entails in exact numbers for an EPC **varies across time**, as it is **set in relative terms based on the current requirements** for energy use for new buildings.

EPC – ENERGY PERFORMANCE CERTIFICATE

- The European Union has established **clear legislative frameworks to reduce energy demand from buildings**. The directives on the Energy Performance of Buildings (EPBD) and on Energy Efficiency (EED) are being implemented by the EU Member States to this end.
- Under the EPBD, EU member States have established **energy performance certification** systems with independent mechanisms for implementing and controlling national pathways towards improving the energy efficiency of buildings.
- The building is given a rating between A (Very efficient), and G (Inefficient).

Distribution of the building stock in the EU per EPC class



Distribution of the building stock in the EU per EPC class

